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Means of implementation for sustainable forest management: decision on a voluntary global financial mechanism, a portfolio approach and a forest financing framework

Note verbale dated 6 February 2009 from the Permanent Mission of Suriname to the United Nations addressed to the Secretary-General

The Permanent Mission of Suriname to the United Nations presents its compliments to the Secretary-General of the United Nations and has the honour to submit herewith the report of the meeting held in Paramaribo from 8 to 12 September 2008 entitled "Summary of the conclusions and recommendations of the international expert meeting on financing for sustainable forest management: the Paramaribo dialogue" (see annex).

The meeting, hosted by the Government of the Republic of Suriname, was a country-led initiative in support of the United Nations Forum on Forests, co-sponsored by the Governments of the Netherlands and the United States of America. It gathered 227 participants, including international experts from all regions of the world, non-governmental organizations and major groups.

The Permanent Mission of Suriname to the United Nations requests that the Secretary-General include the report among the documentation for the eighth session of the United Nations Forum on Forests, to be held from 20 April to 1 May 2009.

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Annex to the letter dated 6 February 2009 from the Permanent Mission of Suriname to the United Nations addressed to the Secretary-General

Summary of the conclusions and recommendations of the International expert meeting on financing for sustainable forest management: the Paramaribo Dialogue
8-12 September 2008
Paramaribo

A country-led initiative in support of the United Nations Forum on Forests

INTRODUCTION

This report presents a summary of conclusions and recommendations from the international expert meeting "Financing for Sustainable Forest Management: The Paramaribo Dialogue", hosted by Suriname as a Country-Led Initiative (CLI) in support of the United Nations Forum on Forests (UNFF). The full Co-Chairs' Summary Report of the CLI can be found at www.clisuriname.com.

The CLI was co-organized by the Republic of Suriname, the Kingdom of The Netherlands and the United States of America, and was supported by the Government of the United Kingdom, the International Tropical Timber Organization (ITTO), the World Bank, the Inter-American Development Bank, Conservation International and WWF-Guianas.

The seventh session of the UNFF successfully concluded a Non Legally Binding Instrument (NLBI) on All Types of Forests, which was adopted by the General Assembly of the United Nations in December 2007. The seventh session of UNFF also decided "to develop and consider, with a view to adopting at the eighth session of the Forum, a voluntary global financial mechanism/portfolio approach/forest financing framework for all types of forests, aiming at mobilizing significantly increased, new and additional resources from all sources, based on existing and emerging innovative approaches, also taking into account assessments and reviews of current financial mechanisms, to support the implementation of sustainable forest management, the achievement of the global objectives on forests and the implementation of the non-legally binding instrument on all types of forests".

Against this background and in support of the UNFF process, the objective of the *Paramaribo Dialogue* was to identify opportunities to significantly enhance financing for sustainable forest management. To that end, the meeting brought together finance and forest experts from around the world, shared experiences on mobilizing forest funding and generating revenues, identified existing and emerging public and private

financing sources, and examined the relationship between forest financing and forest-related governance and enabling environments for investment. The meeting also explored models, strategies and institutional arrangements for increased financing through such means as bilateral and multilateral public funding mechanisms, debt reduction, payments for ecosystem services (such as water and carbon), private sector commercial investment and private philanthropy.

The preparation for the CLI was guided by an Advisory Committee chaired by Ambassador Henry Mac-Donald, Permanent Representative of Suriname to the UN, and consisting of The Netherlands, United States of America, Germany, Norway, United Kingdom, South Africa, Suriname, FAO, ITTO, the World Bank, the UNFF Secretariat, Conservation International and Forest Trends. UNFF Bureau members were consulted during the development of the CLI programme. A CLI Suriname Conference Management Team was formed by the President of the Republic of Suriname to coordinate and organize the meeting.

The CLI was officially opened by H.E. Runaldo Ronald Venetiaan, President of the Republic of Suriname. Welcome addresses were delivered by Ambassador Ewald Limon, Chair Presidential Task Force "National CLI Preparations", on behalf of the Republic of Suriname; Mr. Hans Hoogeveen, Chair UNFF-7/Director-General of the Ministry of Agriculture, Nature and Food Quality, on behalf of the Government of the Netherlands, Ms. Stephanie Caswell, Director of the Office of Ecosystems and Natural Resources Conservation U.S. Department of State, on behalf of the Government of the United States of America and Mr. Boen M. Purnama, Chair UNFF-8/Secretary-General of the Ministry of Forestry, Republic of Indonesia. A summary of the opening addresses during the morning session is attached in Annex I.

The plenary sessions of the CLI were co-chaired by Mr. Cornelis Pigot and Ms. Annette Tjon Sie Fat on behalf of Suriname; Mr. Hans Hoogeveen on behalf of the Netherlands; and Ms. Stephanie Caswell on behalf of the United States. Breakout groups were co-chaired by Mr. Glen Kile (Australia) and Ms. Elise Haber (South Africa), Mr. Carlos Gonzalez (Mexico) and Ms. Stefanie von Scheliha (Germany), Mr. S.P. Yadav (India) and Mr. John Hudson (United Kingdom). The breakout groups were facilitated by Mr. Carlos Manuel Rodriguez, Mr. Rezal Kusumaatmadja and Mr. Jag Maini. Rapporteurs were Ms. Kim van Seeters, Mr. Charles Barber and Amb. Henry Mac-Donald.

The experts at the CLI discussed the issues raised in plenary sessions in three concurrent, interactive breakout groups which met three times over the course of the meeting. The breakout groups were facilitated, and all discussed a common set of questions that were put to them by the meeting co-chairs. Breakout session co-chairs prepared a summary of key points raised in their groups for presentation to plenary.

The following issues were discussed:

- Financing sustainable forest management: Producer, Consumer and Community perspectives;
- Financing from forest ecosystem services;
- Institutional and governance strategies at the national level;
- Institutional and governance strategies at the international level.

This summary report is a compilation of views discussed during the meeting and does not necessarily reflect a consensus among the experts, participating in their personal capacity. Some of the items summarized under the breakout groups are cross-cutting in nature. Therefore, for a full understanding of the discussion, the complete report should be considered in its entirety

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations discussed by participants at the CLI, which are more fully addressed in the main body of the CLI report, are presented below. They have been reordered and clustered under sub-headings for the benefit of the reader, but their substantive text remains unchanged.

These conclusions and recommendations are offered as input to the UNFF discussions and negotiations on financing for SFM. They reflect a compilation by the CLI Co-Chairs of views and recommendations offered during the meeting and does not necessarily reflect consensus among participants, who participated in the CLI their personal capacity as experts.

A. Current and Emerging Initiatives and Mechanisms for Financing SFM

- The UNFF is entering a new and mature era, having agreed in 2007 to a Multi-Year Program through 2015 and to the Non-Legally Binding Instrument on All Types of Forests (NLBI), which the UN General Assembly adopted in December 2007.
- The NLBI is a landmark global agreement achieved after years of negotiation. The agreement builds on the Forest Principles adopted at Rio in 1992, as well as the Johannesburg Plan of Action of 2002, and provides an enhanced framework for national action and international cooperation to achieve sustainable forest management (SFM).
- The UNFF 7 agreed, among other things, to develop and consider, with a view to adopting, a "voluntary global financial mechanism/portfolio approach/forest

financing framework aimed at mobilizing significantly increased new and additional resources from all sources, based on existing and emerging innovative approaches, also taking into account assessments and reviews of current financial mechanisms, to support the objectives on forests and the implementation of the non-legally binding instrument on all types of forests." There is an urgent need for financing for sustainable forest management from all sources.

- Forests are diverse in character and subject to widely varying pressures. The context of forests and forest policies are often country-, Subregion- or ecosystem-specific (e.g. mangroves versus boreal forests or tropical rainforests).

- There is a critical need to tackle the main drivers of deforestation, which in large part lie outside the forest sector.

- Less than half of countries' Poverty Reduction Strategic Papers (PRSPs) even mention forests, and less than a quarter include a coherent cross-sectoral strategy incorporating forests and SFM. Countries should develop coordinated development strategies that address all actions having an impact on forests, and include SFM as a basis for sustainable development.

- A country's investment climate is critical to attracting private sector investment.

- Economic values of forest ecosystems are increasingly recognized, including protection of water, soil, biodiversity, and carbon. Emerging systems for payments for ecosystem services (PES) present important new opportunities for mobilizing SFM financing.

- PES markets are still evolving and not generally well-understood by the forestry community. Improving this communications gap is a key task for mobilizing PES as part of SFM financing.

- PES initiatives will need to be flexible and adapted to diverse national contexts: One size does not fit all.

- Establishing an enabling policy environment for SFM at the national level is a crucial step for countries to take, in order to mobilize and take advantage of emerging PES instruments and opportunities. Key elements of an enabling environment include:

    - Mainstreaming SFM as a core element of development planning and investment discussions and priorities;

    - Strengthening policy coherence among government sectors in order to "speak with one voice" on forest issues in different international fora (e.g. UNFF and UNFCCC);

- Clarifying and securing land tenure – i.e. allocation, ownership and control over forest lands and resources;

- Improving the environment for doing business – particularly for small and medium enterprises – by combating corruption and reducing bureaucratic barriers (i.e. "red tape") to private sector business activity;

- Creating the conditions that allow community-based forest management to flourish, and empowering local and indigenous communities to participate in decision-making about forests and forest policy;

- Strengthening forest law enforcement;

- Reducing perverse incentives that encourage unsustainable forest uses and forest conversion, and develop positive economic incentives (e.g. tax breaks) for SFM.

- Establishing specific provisions to enable PES systems to be established and flourish.

- Forest inventory, forest land use planning, mapping and carbon accounting are all key building blocks for PES, and SFM financing in general.

- Given the critical importance of the legal and governance basis for PES, it may be useful to hold regional or national workshops, building on preparatory research and stakeholder consultation, to identify key legal and governance obstacles and develop recommendations and strategies to overcome these obstacles.

- In developing countries in particular, there is a pressing need for more information on the theory and practice of PES, including examples of PES best practices and success stories.

- Implementing PES requires "up-front" investment in developing capacity, basic information (e.g. maps), etc. ODA can play a catalytic role in this regard.

- PES is a potentially fundamental element of the "portfolio approach", but it may not be applicable to all countries and situations.

- There are significant differences between PES in the national or local context versus international context. Trans-boundary PES initiatives may be more difficult to develop and implement.

- Strategies for PES may include a combination of market-driven voluntary transactions and regulatory approaches.

- In some cases, ecosystem services are viewed as free "public goods", and some are resistant to the idea of paying for them. Others object on ethical grounds to the commoditization of nature. Political and social acceptance of PES is therefore a challenge, along with technical and policy challenges.

- There is considerable uncertainty about how various PES systems would distribute burdens and benefits. Indigenous and local communities in particular, are very concerned that they may not be compensated for their longtime efforts to conserve and sustainably use forests, and may even lose access to their lands and resources in a "PES gold rush" by outsiders.

- It is often difficult to ensure that those who provide particular ecosystem services are the ones who are actually compensated for doing so. Similarly, identifying the users who should pay for those services – and devising practical and feasible ways to get them to pay – is a challenge.

- Independent, voluntary certification standards and systems are one important method for boosting investor confidence in PES projects, but such systems are still in an early stage of development. Many potential investors seek a transparent standard that can verify not only carbon performance, but also performance in meeting biodiversity and social objectives. The market-leading Climate, Community and Biodiversity (CCB) Standard is in the process of developing a verification standard that takes multiple carbon, biodiversity and social benefits into account. Development, testing and application of a holistic standard of this kind will help to build investor confidence.

- The growing focus on reductions in emissions from deforestation and forest degradation (REDD) and the renewed concern for forests as a result may provide an important boost for SFM financing efforts, but there are also concerns, for example:

    - The intense focus on REDD may be creating inflated expectations about the financial resources that are likely to be generated for SFM.

    - The focus on forests' carbon ecosystem services may overshadow and crowd out attention to other important forest ecosystem services, such as biodiversity and water.

    - The compressed negotiating schedule under UNFCCC, and the pressure to agree on a REDD system by the end of 2009, before the issues are fully understood, raises concerns for some.

    - The nature of "forest carbon" – whether it is a commodity or a unit of measure to value a service is unclear and has implications for determining who are the providers/owners of carbon.

- Countries and other stakeholders can immediately take advantage of carbon-based PES systems, using the growing voluntary market, while the proposed REDD mechanism under the UNFCCC regime is developed.

B. Institutional and governance strategies at national and international levels for financing for SFM

- High-level national political commitment to SFM is essential for both mobilizing financing and for ensuring the inter-sectoral coordination required to actually implement SFM.

- A key first step that countries can take is to conduct an inventory of their forest resources, including a preliminary assessment of their value.

- Countries can greatly benefit from development of a long-term vision for the sustainable development of their forests and forest lands through a participatory and inter-sectoral process.

- National Forest Programmes and other similar national forest policy frameworks are key vehicles to implement the NLBI, and to catalyze integrated national financing strategies to mobilize and increase financial resources for SFM.

- Good "vertical" as well as "horizontal" coordination among levels of government is also important, especially in countries with federal or decentralized government institutions.

- Establishment of an enabling policy, legal and institutional environment for financing SFM is of critical importance. Key elements of an enabling environment include: securing and clarifying tenure; improving the environment for business start-up and operation; reducing "perverse incentives" and establishing positive incentives for SFM investments; strengthening forest law enforcement; community-based forest management approaches; and creating conditions to allow for payments for ecosystem services.

- Processes for meaningful stakeholder participation are an important basis for financing and implementing SFM. Participation of indigenous and local communities requires attention to their particular cultural and linguistic situations.

- Indigenous peoples often have a special relationship with forests and in many cases have legal rights of ownership and use. Respecting these rights is an important aspect of developing partnerships for financing SFM at the local level.

- Partnerships among different stakeholders are key building blocks for mobilizing SFM finance and implementing SFM. Some stakeholders need assistance and capacity-building support to effectively engage in SFM partnerships.

- Information on SFM financial instruments and opportunities, and better market information need to be available to current and potential producers and investors.

- As protected areas systems have expanded, financing for long-term management has not kept pace. Greater attention should be given to developing sustainable protected area financing plans, drawing on all relevant sources of finance.

- Effective national strategies may also include:

    - National trust or endowment funds to finance non-commercial forest conservation and management activities

    - Access to credit by local communities and small forest-based enterprise

    - Risk management and reduction for investors, including through loan guarantees and ease of movement of capital

- There are a significant number of existing and emerging mechanisms and institutions related to SFM finance, particularly taking into account new and emerging sources related to climate change. This institutional proliferation, however, has not yet translated into tangible increases in SFM financing for many countries and stakeholders. Many participants noted that ODA plays a critical role as a catalyst for other funding.

- Improving the interface between users and providers of financing for SFM is a major priority. A coherent approach at the country-level is a necessary foundation for mobilizing international SFM financing.

- The UNFF and the CPF are urged to increase cooperation to address these opportunities and gaps.

- A comprehensive vision by all players of the current and emerging international financing mechanisms and approaches for forests is critical. The current reality is an increasingly fragmented and duplicative picture of international financing opportunities for actors at all levels. Greater policy coherence is needed among existing and new and emerging forest-related funding mechanisms.

- International funding needs to reach communities and grassroots-level organizations. Current and prospective SFM funding mechanisms and initiatives should be adjusted to improve funding for these locally-based programmes.

- The complexities of accessing international SFM financing mechanisms can be reduced through streamlining institutional processes. More active and consistent application of the Paris Declaration on Aid Effectiveness can help in this regard.

- The emerging World Bank Forest Investment Program (FIP) holds great potential to mobilize significant new funding for forest finance. Countries and stakeholders should actively engage in the FIP design process ongoing in 2008-2009.

- There is a compelling need to focus special attention on HFLD countries in the design of REDD financing principles and mechanisms. Although REDD discussions are advancing rapidly, they have not yet taken the position and interests of the HFLD countries in any significant way. The FIP may be well-placed to serve as a financer for HFLD countries, complementing other funds such as the FCPF.

- Communication at all levels was identified as a critical need, with effective coordination and strategic planning between sectors of government at the national level a key component. The UNFF and CPF can play an important role in this regard at the international level, with a focus on implementation of the NLBI.

- CPF's on-line *Sourcebook on Funding for Sustainable Forest Management* can become an important tool for navigating various SFM funding sources and application processes, and to that end it should be strengthened with dedicated human and other resources.

- Forests should not be viewed only as a source of commodities or as units of accounting in carbon finance schemes; rather, their multiple values, goods and services should be taken into account.

- In many regions, the livelihoods, cultures and well-being of forest-dependent peoples are directly and inseparably linked to the integrity of forests.

- A holistic approach to forest sustainability and related financing aspects requires recognition of human rights.

- Indigenous people participation in the UNFF continues to be limited and needs to be strengthened.

- Collective ownership of forest lands and resources by local communities and indigenous people can contribute to SFM.

- The establishment of PES schemes should not result in making the traditional practices of indigenous peoples illegal, or in their forced relocation.

- Indigenous peoples should be active participants in forest-related policy decisions that affect them.

- Financing for SFM should reflect a holistic approach that takes into account the needs, right and contributions of all stakeholders, including indigenous and other forest-dependent peoples.

- UNFF policies and principles for financing SFM should take into account the UN Declaration on the Rights of Indigenous Peoples.

- Direct access to funding and credit by indigenous and local communities should be an element of an international portfolio approach to SFM financing.